USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 8/25/2004

GAIN Report Number: CA4056

Canada

Agricultural Situation

WTO FRAMEWORK: IMPACT ON CANADIAN AGRICULTURE

2004

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Report Highlights:
On July 31, 2004 a framework agreement was reached and agreed upon at the World Trade Talks (WTO). The reaction to the agreement from Canada's agriculture sector was mixed. The Canadian Wheat Board was very disappointed, as the text could signal major reforms or even an end to the CWB monopoly. The supply management commodities were cautious; pleased with some aspects of the text, while still maintaining serious concerns over other aspects. The export sector was pleased with the framework, believing it is a good stepping-stone for further negotiations. The diverging views on the text, represent the diverging positions that Canadian negotiators will have to work with in attempts to secure a deal that benefits every sector and ensures the overall goal of increased trade liberalization for Canadian producers.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1]
[CA]

The WTO Framework and Canadian Agriculture

In this round of negotiations, there are essentially three groups in Canadian agriculture who are trying to get their positions on the table and trying to convince Canada's negotiating team that their position is the one that should be put forward and fought for at the WTO. The first group represents the export dependent sectors. Producers who depend upon the world market for price determination make up 90% of all Canadian farmers and account for 80% of farm cash receipts. The Canadian Agri-Food Trade Alliance (CAFTA) represents a majority of these producers, and includes other farm groups like the Grain Growers of Canada (GGC) and the Canadian Cattlemen's Association (CCA), as well other members of value chain such as food processors and grain handlers. The second group is the Canadian Wheat Board (CWB) and its supporters. The CWB is Canada's primary State Trading Enterprise (STEs). The final group represents the SM-5, or the supply management commodities. This group is made up of representatives of the dairy, chicken, turkey, egg and broiler/hatcher commodities. Together, this group represents the remaining 10% of Canadian farmers.

Positions of the Three Groups

Supply management operates on the basis of three pillars: production discipline, producer pricing, and import control. All three pillars are equally important and the weakening of one would compromise the entire system. Therefore, the goal of the SM-5 at the WTO negotiations is the maintenance of all three pillars of supply management in their current form.

The SM-5 has three main objectives at the WTO and they are:

- To keep over-quota tariffs at their current levels
- To expand clean minimum market access to 5%
- To recognize the legitimacy of producer pricing mechanisms

In addition to the three main objectives, the SM-5 is also advocating:

- Keeping the domestic measurement of support aggregated; ie, no product-specific caps on domestic support
- Eliminating export subsidies
- Elimination of the Blue Box and an overall cap on all kinds of domestic support, regardless of the box

The Canadian Wheat Board (CWB) and its supporters share very similar ideas to the SM-5 in regards to its positions at the WTO. Being Canada's primary STE, the main objective of the CWB is to preserve its monopoly powers in the marketing of western grain.

The CWB has the following goals at the WTO agriculture negotiations:

- Eliminate export subsidies and significantly reduce trade and production distorting domestic support, ensuring a more level playing field for Canadian wheat and barley farmers.
- Eliminate the misuse of export credit and food aid, which displace commercial trade, and establish effective disciplines and mechanisms that ensure this distortion is not allowed.
- Apply existing State Trading Enterprises (STE) trade rules to private entities of equal or greater market power.
- Protect and increase market access for Canadian wheat and barley worldwide.

The CWB's position clearly states that the CWB is a farmer run organization that provides neither an export subsidy nor is trade distorting. This position also contends that the CWB meets all requirements for transparency of operations under GATT rules and, in fact, is more transparent than its private competitors. The CWB argues that it should not be singled out, nor should there be disciplinesapplied that would put the CWB at a competitive disadvantage in the market place.

The export dependent sector is calling for far more liberalized trade than either the CWB or the SM-5. Groups like CAFTA and its members seek the creation of an open, market-oriented subsidy and tariff-free agricultural trading system. CAFTA would like to see substantial reduction in domestic support and protection, elimination of export subsidies, and substantial improvement in market access. The main positions of CAFTA in regards to the three modalities are the following:

Market Access
The elimination of all tariffs on a global and reciprocal basis over an agreed period of time. This would be done through a series of measures including elimination of in-quota tariffs, elimination of tariff escalation on value-added products, and a series of other steps.

Export Competition
The elimination of all export subsidies, improved disciplines on export credit, food aid and other potential measures to ensure they do not act as export subsidies and the elimination and prohibition of the use of export taxes and restrictions that provide processors with a cost advantage in procuring raw product.

Domestic Support
The elimination of all production and trade distorting domestic support. CAFTA seeks to achieve this goal by eliminating the blue box category, clarifying and strengthening rules in regards to programs considered green, and through a series of other steps.

REACTION TO AND IMPLICATIONS OF THE RECENT WTO FRAMEWORK AGREEMENT

Not surprisingly each of the three groups had differing reactions to the recent framework on agriculture that was agreed to in Geneva.

SM-5

The SM-5 group took a cautious approach to the framework. While they were pleased with the removal of the mandatory “minimum” cut in over-quota tariffs, concern remains over the existing language stating that substantial improvements in market access will be achieved through combinations of tariff quota commitments and tariff reductions, because it still leaves open the possibility for negotiations to reduce over-quota tariffs. Another concern of the SM-5 with the market access text is the mandate that the selection and treatment of sensitive products must not undermine the overall objective of the tiered approach to substantial overall tariff reduction. The SM-5 have been able up to this point to present their products as “sensitive” and therefore have stated that they should be protected and allowed to continue to operate as is. With the text clearly stating that sensitive products will not undermine the overall objective of reducing tariffs, the SM-5 could be forced to compromise more than they had planned and open their markets up to increased imports. If the Canadian trade negotiating team is unable to negotiate the a 5% market access, supply management could see a substantial increase in imports of poultry and dairy products from other countries, far beyond the 5% they are lobbying for, possibly without the protection of the over-quota tariffs they rely on so heavily to maintain the three pillars of supply management. Along with market access, the SM-5 also has serious concerns with aspects of domestic support and export competition modalities.

Currently in Canada, the quota for dairy is worth $3 billion (Cdn) and the price of quota continues to rise. Any changes to the structure of the supply management system (i.e. compromise to any one of the pillars) could greatly devalue quota, leaving producers with no ability of ever recovering the money they invested in order to obtain quota. As with the CWB, producers under supply management fully expect the Government of Canada to reimburse them for any changes in the value of quota as a result of a WTO agreement that changes their system in any way. Changes in supply management could be beneficial to consumers, as it could lead to a reduction in price paid for dairy and poultry products.

The CWB

The reaction to the framework agreement by the Canadian Wheat Board (CWB) was one of great disappointment and displeasure. The CWB accused the Government of Canada of selling them out and selling out the interests of Western Canadian grain farmers. The framework agreement drew the ire of the CWB because the agreed-to text poses a threat to the existence of the CWB as it currently exists and operates. In the export competition section of the framework, the issue of STEs and how they operate are clearly addressed. The text requires the removal trade distorting practices by STEs, including eliminating export subsidies provided to or by them, government financing and the underwriting of losses. This would prevent the Government of Canada from covering any losses that occur on the pool accounts. As well, the framework would either reduce or eliminate the CWB's ability to borrow at preferential rates. The text also states that the future use of monopoly powers will be subject to further negotiation. The only bright spot for the CWB in the text was the removal of the language dealing with increased transparency of STEs, which had been present in an earlier draft of the text. As mentioned earlier, the CWB feels it is already more transparent than its private competitors and should not be forced to become even more so.

To further signal their displeasure with the framework text, the CWB announced they would seek major financial compensation from the Canadian government for western Canadian farmers if government guarantees of initial payments and borrowings were eliminated as part of a WTO deal. This type of behavior from the CWB may not help relations with the Ministers' responsible for defending it at the WTO and could backfire on the CWB.

The Export Dependent Sector

The export dependent sector, including groups like the Grain Growers of Canada (GGC) and Canadian Agri-Food Trade Alliance (CAFTA), celebrated the agreement on the new framework, where it was seen as a large step forward. Unlike the failed Cancun text, this text is seen as encouraging further reductions in tariffs and barriers that prevent the full liberalization of trade around the world. Despite the positive attitude towards the framework, both GGC and CAFTA would have liked to see the text be more aggressive in some areas, especially in the area of market access. But as both groups have expressed, the text lays the groundwork for pursuing even greater market access and further trade liberalization as the WTO negotiations continue into next year, with the goal of having a deal on the table and agreed to by December 2005. Some of the positive aspects of the text as indicated by CAFTA and the GGC are:

- The reduction of *de minimis* and substantial reductions in trade distorting domestic support with the assurances that the highest subsidizers will face the greatest cuts.
- Increases in market access for grains, oilseeds and their value added products.
- A curtailment of the practice of charging higher tariffs on processed products (tariff escalation).
- Better definitions and independent monitoring of programs that are supposed to be non-distorting (green box programs).
- The negotiation of an end to all forms of export subsidies, including the subsidy elements of export credits and food aid.

Despite CAFTA's and the GGC's generally favorable opinion of the framework agreement, there are areas of the text that concern both groups. Both would have preferred to see blue box provisions eliminated entirely, along with more coherent and aggressive guidelines in the area of market access that affect grains and oilseeds. The GGC feels that this framework agreement will help level the playing field and allow Canadian farmers to compete in a fairer trading environment. Some of the other concerns with the framework are:

- The text no longer requires market access improvements on a tariff line basis- it has been changed to product basis. This is a problem for the valued added industries in Canada.
- The removal of the mandatory "minimum" cut in over-quota tariffs from the framework.
- There was watering down in the language around differential export taxes and sectoral initiatives.

CONCLUSION

Despite the misgivings and the negative reactions to the text by some sectors of Canadian agriculture, for most of Canadian agriculture the framework is a significant step forward for increasing trade liberalization. The 90% of Canadian farmers who rely on exports and the world market to make a living will greatly benefit from this type of framework, which they believe will open markets further and reduce the inequalities that exist between countries. The result of the text could mean a change in Canada's domestic policy on agriculture for those who operate under the supply management system. For Western Canadian farmers, the text could be a step towards the freedom to market their own grain and the possibility of establishing value-added industries for wheat and barley through the removal of the CWB's monopoly.

These negotiations have been about trying to increase trade liberalization and in order to do that, compromise is required. Unfortunately for the Canadian negotiators, who have tried to represent both sides of the arguments, they have had to compromise on certain positions, which could dramatically change how 2 of the 3 groups in Canadian agriculture currently operate. As long as the compromise is not too great and in the long run the benefits outweigh the compromises, Canadian producers believe they will come out ahead.

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